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Report Highlights: Vietnam's 2002 meat production is estimated at 2.12 million metric ton (mmt) (live weight) of which 77% is pork. Annual per capita meat consumption is low at about 25 kg, while annual per capita rice consumption is 190-195 kg. The dairy cow population is rapidly expanding, thanks to strong central and provincial government support programs.

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EXECUTIVE SUMMARY

In 2002, Vietnam's total animal population is estimated at 263 million head, an increase of 5% from 2001's level. The dairy cow population had the highest increase rate of 18% as imports of breeding cows increased rapidly due to the government's program to develop the dairy sector. The dairy herd increased to 54,000 head from 38,000 head in 2001. The Ministry of Agricultural and Rural Development (MARD) estimated Vietnam's 2002 milk production at 90,000 metric ton (mt) (see table 1); a production level that only meets 10-13% of the country's total milk demand.

Vietnam's 2002 animal meat production is estimated at 2,120 thousand metric ton (tmt) (in live weight), of which 77% is pork meat. Animal meat products are mainly for domestic consumption, with only 2-3 percent going to export markets. Vietnam's annual per capita meat consumption is considered to be quite low, at roughly 22-26/kg (see table 1).

Table 1: Vietnam's Animal Population and Products

	Unit	1999	2000	2001	2002est.
Total Animal Population	Thousand head	226,744	227,808	249,000	263,960
Cattle	Thousand head	4,064	4,128	3,896	4,200
of which dairy cows	Thousand head		35	38	54
Buffalo	Thousand head	2,955	2,897	2,819	3,000
Swine population	Thousand head	18,886	20,194	21,740	23,200
Poultry population	Thousand head	197,323	186,046	215,800	233,060
Total meat production	Thousand metric ton	1,712	1,836	1,989	2,210
(in live weight)					
of which pork meat	Thousand metric ton	1,318	1,409	1,534	1,700
Share of pork meat/total meat	%	77	77	77	77
Fresh milk production	metric ton	39,692	52,172	64,703	90,000
Meat consumption per capita per year	Kg/capita/year	22.3	23.3	25	26
of which pork meat	Kg/capita/year	17.2	18	18	18.5

Source: Calendar year 1999 and 2000 data from General Statistical Department and Ministry of Agricultural and Rural Development (MARD) with Post 2001 and 2002 estimates.

In order to improve pork meat quality, MARD has a program to improve animal breeds to supply good quality breeding swine to farmers. The Ag. Extension Department of MARD is keen on assisting farmers to expand their pig farms for commercial purposes in hope of reducing production costs. The Department of Animal Health is working with pork importing countries to set up pork trade agreements.

The GDP of the livestock sector is estimated at \$1.65 billion, accounts 19% of the GDP of the agricultural sector. The Government of Vietnam continues to implement different policies and measures to develop the sector. Together with other livestock components, dairy and swine sectors are considered key investment areas.

SWINE SECTOR

Swine production

In 2002, the swine population is estimated at 23,200 thousand head, an increase of 6% compared with 2001's level. Pork meat production is estimated to increase to 1,700 tmt from 1,534 tmt in 2001, at a growth rate of 10%. Pork meat accounts more than 77% of the total meat production.

Pork export

In 2001, Vietnam exported 27,300 mt of pork meat (equivalent to 40,000 mt of live weight and accounting 2.6% of total pork production) according to MARD (see table 2). About 13,000 mt were shipped to Russia, while Hong Kong and Malaysia imported 12,000 and 2,000 mt respectively. Laos and China are also key markets for Vietnam's pork. Pork was exported in the form of frozen meat and as suckling piglets. Russia is the biggest market for frozen pork while Hong Kong is the biggest importer of suckling piglets.

In 2002, Vietnam's pork export dropped sharply due to high domestic prices. Post estimates Vietnam's 2002 pork export at 12,000 mt (see table 2), about 29% of MARD's target to export 42,000 mt. Pork production costs were up considerably because of high breeding swine and animal feed prices. In Southern provinces, a shortage of breeding swine was due to some climate calamities (floods) in some low-lying areas. In 2001, low pork prices caused some swine farmers to reduce breeding swine herds.

Animal feed cost contributes more than 70% of pork production cost. Vietnam's animal feed price is higher by 30-40% than animal feed in nearby countries like Thailand, China, and Malaysia. Currently, pig feed costs about VND 6,000-7,000/kg (\$0.38-0.45/kg)

Table 2: Vietnam pork 1999-2002 Exports

	1999	2000	2001	2002est.
Meat export (mt)	7,000	12,200	27,300	12,000

Source: MARD

Vietnam's 2002 domestic market prices increased in all regions. In the Red River Delta (RRD), prices of live pigs went from VND 10,000 /kg to VND 12,500/kg while the prices in Mekong River Delta (MRD) provinces varied from VND 14,000/kg to 17,000/kg (see table 3). Therefore, there was a live pig movement (mostly by truck) from North to South.

Production costs of export-quality pork (lean meat pigs raised on commercial feed) is estimated at \$1,000-\$1,200/mt, about \$200-\$250 higher than the export price. Therefore, pork traders are happier selling to the domestic market than selling pork to export markets. Moreover, the Hong Kong price for suckling piglets dropped significantly during the course of 2002.

In 2003, Vietnam's pork exports will continue to be hindered by many obstacles -- including high domestic prices, the low quality of most pork meat, and generally lower hygiene and sanitary conditions. Post estimates Vietnam's 2003 pork exports at the same 2002's level.

Table 3: Vietnam's 2002 monthly average pork price (live weight) in selected regions

Unit: Vietnam Dong (VND).

	Red River Delta	Mekong River Delta
January	9,100-9,200	15,000
February	10,300-10,400	14,000
March	10,000-11,000	15,000-16,400
April	11,000-12,000	15,500-16,500
May	11,000-12,000	17,000-17,500
June	11,000-12,000	16,500-17,000
July	10,500-11,000	15,500-16,000
August	11,000-12,500	16,000-17,000
September	11,000-12,500	16,000-17,000
October	10,500-11,000	17,000-17,500
November	11,000-12,500	17,000-17,500
December	11,00-12,500	16,500-17,000

Source: MARD

* Exchange rate: VND 15,450 equal \$1 as of Jan. 20, 2003

DAIRY SECTOR

Vietnam's dairy cow herd increased sharply in 2002, to 54,345 head up from 41,241 head in 2001 due to the Government's policies on developing this 'key' sector. The growth of the dairy cow herd took place in all regions. In Northern provinces, the number of dairy cows was up by 79% to 11,066 head compared with 6,170 head in 2001. Meanwhile in the South, the growth rate was 20% where the numbers went up to 41,121 head from 34,135 head in 2001 (table 4). Ho Chi Minh City has the largest dairy cow herd of 32,800, an increase of 17% from 27,850 head in 2001.

Table 4: Vietnam's Dairy Cattle by Regions (unit: head)

	1999	2000	2001	2002
Total dairy cow population	29,500	35,000	41,241	54,345
of which in the Northern provinces	n/a	n/a	6,170	11,066
Central provinces	n/a	n/a	132	934
Tay Nguyen Highland	n/a	n/a	804	1,224
Southern provinces	n/a	n/a	34,135	41,121

Source: MARD

More than 90% of dairy cattle are raised by smaller-holder households. In Northern provinces, the dairy cow farm size is smaller than Southern dairy farms. Average dairy farm size in the North is about 3-5 cows per family while southern dairy household keeps about 8-10 dairy cows. A few dairy farms surrounding Ho Chi Minh City are as high as 50, 70 or even 100 head.

Imports of dairy cows increased sharply

In 2002, Vietnam imported 3,714 Australian cows of which 3,392 were Holstien Friesland (HF). Vietnamese dairy cattle importers prefer Australian dairy cows because of reasonable prices and their good abilities to adapt to Vietnam's (mostly hot and humid) climate conditions. Cost for an Australian pregnant dairy cow is about \$1,425 (about VND 21 million) C&F/ HCMC and an imported calf is about \$1,125 (VND 18 million). Reportedly, the average Australian HF milk yield is between 4,000-5,000 kg/laction period. Dairy cattle importers include state-owned companies and private-sector companies in Ho Chi Minh City, Lam Dong, Can Tho, Binh Duong, An Giang provinces (in South Vietnam), Nghe An, Thanh Hoa, Tuyen Quang, Ha Nam, Son La and Vinh Phuc provinces (in the North Vietnam).

However, dairy cattle importers have been warned about mass imports. Shortage of feed, poor knowledge on raising dairy cows, and poor veterinary services are major concerns. MARD has asked local agencies to not import dairy cows if they do not have enough facilities to raise them properly.

Vietnam's 2003 demand for dairy cow imports remain at high level

Vietnam will import more cattles in 2003 as result of financial assistance from the Government. The Government provides dairy cattle importers with no-interest rate loans for the first 3 years. Moreover, dairy farms are exempted from the land use tax if the land is used for grass cultivation. Dairy farms are also provided with free artificial insemination services.

The Government has invested in building dairy cow breeding centers in provinces having dairy cow development projects. According to MARD, 30 provinces have registered to participate in the Government's dairy sector development project period 2002-05.

A report estimated Vietnam's 2003 cattle import at 10,800 of Holstein Fresian (HF), Brahman and Drought-master breeds. The report also pointed out that 48% of those imported cows will go through Hai Phong port to Northern provinces and the remaining will enter Vietnam via Saigon port to Southern provinces. MARD's estimate is lower, at about 6,000-7,000 head. The Ministry is looking at several different suppliers, including Australia, United States, and China.

Dairy cow importing can be a profitable business. It was said that dairy cow importers make profit when they sell imported cows to farmers. An imported cow costs about VND 24-25 million (\$1,550). Many farmers can not afford to buy a cow if they do not get loan from banks. Therefore, expanding the dairy cow population would not be successful if the Government does not have an appropriate loan program for the farmers. The Government is keen to continue the dairy expansion, so the loans will

continue.

Supply of grass for dairy cows in shortage

Although dairy cows have been grown in Vietnam for a very long time, raising them in a commercial setting is new to Vietnam's farmers. Traditionally, dairy cows were fed with farm by-products like rice straw, corn stalks, and food industry by-products. Grass cultivation for livestock purposes is rare in Vietnam.

Currently, farmers are feeding their dairy cows grass, rice bran, cassava, young corn stalks, and rice straw. Fresh grass is from different sources -- both from cultivated areas as well as wild grass areas. Currently, Vietnam has about 8,000-10,000 ha of grass for the livestock sector. Grass yield is low, about 80-90,000 kg/ha per year. MARD estimates grass production meets only 20% of grass demand for the cattle herd. Elephant, ruzi, guinea and stylo grass varieties are major varieties cultivated in Vietnam. However, these are not good quality grass because they contain low sugar and protein contents. To improve the grass supply, Vietnam needs to cultivate good quality and high yielding grass varieties. Some Australian grass varieties are being introduced to Vietnam. In heavily populated and land scarce regions (like Red River Delta around Hanoi and Mekong River Delta below Ho Chi Minh City), farmers are advised to turn some rice land into growing grass forages for better economic returns. MARD plans to give financial assistance to livestock companies who have facilities to extend grass areas. MARD expects that Vietnam will need to grow an additional 13-14,000 ha of grass by 2010.

Fresh milk production

Vietnam's 2002 fresh milk production is estimated at 90,000 metric tons, an increase of 39% compared with milk production in 2001. That large increase was due to the rapid expansion of the dairy cattle population and higher milk yields. The average milk yield for the national (local and pure-bred cows) herd is between 2,000-2,500 kg per a lactation. Average milk yields of hybrid (F1) dairy cow herd (the F1 dairy cows accounts 89% of the total dairy cow herd) was up to 3,400 kg/lactation in 2002 from 3,350 kg/lactation due to improvement of cow breeds and animal feed. The average milk yield of pure-bred HF cows was estimated at about 4,500 kg/period (see table 5).

Table 5: Vietnam's Fresh Milk Production and Milk Yield.

	Unit	1999	2000	2001	2002est.
Milk production	Metric Tons	39,692	52,172	64,703	90,000
Average milk yield of hybrid HF cow herd	Kg/period	3,150	3,300	3,350	3,400
Average milk yield of HF cow herd	Kg/period	3,800	4,000	4,200	4,500

Source: GSO & MARD

Although Vietnam's fresh milk production reached 90,000 mt in 2002, it meets only 12-13% of the milk demand in the country (about 700 tmt). Current milk production capacity of the dairy cow herd is estimated at 260 mt a day. The state-owned Vietnam Milk Corporation (Vinamilk) is the biggest fresh milk buyer who purchases about 171 mt a day (65% of total fresh milk). Other key milk processors including Foremost (formerly a joint-venture; now foreign-owned and called Dutch Lady) and Nestle (a wholly foreign-invested company) buy about 47 mt and 10 mt a day respectively. The remaining fresh milk goes to small milk processors. Production costs of fresh milk vary in regions; it ranges from VND 1,960/kg in Lam Dong province; VND 2,358/kg in Long An province and VND 2,600/kg in Can Tho province.

To meet the increasing annual demand for milk, Vietnam imports more than \$120 million of milk and milk products. New Zealand, Australia, Netherlands, Denmark, France, Japan, Thailand and USA are key milk-product exporters to Vietnam. In FY-2002 U.S. dairy exports to Vietnam reached the highest level with a value of \$9.6 million, 110% higher than FY-2001's level.

Export of dairy products

Vietnam also exports milk products. According to Vietnam's Custom Department, the export value generated from exports of dairy products was \$70 million in the first ten months of 2002. Middle East, Cambodia, Laos, China and Common Wealth Independent countries (CIS) are important markets for Vietnam's milk products.

Established in 1976, Vinamilk holds a 85% share of the domestic dairy market. The company produces more than 90 dairy products including sweetened condensed milk, powder milk, nutritious cereal powder, biscuits, soya milk, ice-cream, yogurt, cheese and fruit juices. They have a wide distribution network in the whole country and representative offices in key export markets.

ANIMAL FEED SECTOR

In 2002, the growth rate of Vietnam's animal feed sector is estimated at 27% due to high demand from the expanding livestock sector. Commercial animal feed production increased to 3.2 million metric ton (mmt) from 2.2 mmt in 2001. The commercial animal feed production meets about 30-32% of the total feed demand (10 mmt, as estimated by MARD).

Post estimates Vietnam's 2003 industrial (commercial not farm-produced) animal feed production at 4.0-4.5 mmt. The largest increase will be in the North due to the increase in the animal population and number of animal feed mills. Proconco (a joint venture with a French company) has recently opened a feed mill (capacity of 300 tmt/year) in Hai Phong city. In Bac Ninh province, a local animal feed mill (capacity of 250 tmt/year) started production in late 2002. There are also several small private feed mills (with capacity ranging from 30,000-70,000 mt/year) that have recently started their operations.

The animal feed industry relies heavily on imports of some key feed components such as soybean meal, corn gluten, and other feed ingredients. Annually, Vietnam spends about \$180-\$200 million for feed and feed ingredient imports.

In 2002, Vietnam imported about 770 tmt of soybean meal, a very large increase of 150-200 tmt over 2001's import level. Argentina, India, China and U.S are key soybean meal suppliers to Vietnam. About 40 tmt of U.S. soybean meal was exported to Vietnam in 2002. Increased U.S. soybean meal exports are constrained by the poor infrastructure for Panamax vessels. Animal feed producers appreciated the high-quality of the U.S. soymeal and they believe that demand for U.S. soybean meal will be higher in future.

Post estimates a big increase of soybean meal demand in 2003. Imports of soybean meal could reach 900-950 tmt to match the demands of the animal feed industry.

Vietnam imports corn seasonally. The 2002's corn import was about 350 tmt (higher than our estimate in VM0217), mainly from China. According to animal feed traders, Chinese corn has good quality because of low aflatoxin content (about 50 ppm). However, the high import duty (7%) imposed on corn contributes to high animal feed cost. MARD's has petitioned the Government to reduce corn import tariff rate in order to lower animal feed cost.

According to MARD, to reduce animal feed costs and increase animal feed production capacity, the industry needs at least VND 300 billion (\$20 million) by 2005 to upgrade existing animal feed mills and construct new ones.

Feed for aquaculture

The booming aquaculture sector (farmed shrimp and catfish) has steadily required more commercial aquaculture feed. In 2002, aquacultural feed production is estimated at 150 thousand metric tons. Aquacultural feed is produced mainly by animal feed mills. Some foreign invested companies including Proconco (French), CP (Thailand), Cargill Vietnam (USA), and Uni-President (Taiwan) are leading the charge in aquacultural feed production.

In 2003, the production of aquacultural feed is expected to go up rapidly as demand for aquacultural feed increases and as some new aquacultural feed mills start their production in late 2002. In MRD only, annual demand for aquacultural feed is estimated at 100,000 -150,000 mt. Located in Phu Yen province (in South Coastal region) a shrimp feed mill is planned to supply around 60,000 mt of shrimp feed to shrimp raisers in Phu Yen as well as neighboring provinces including Khanh Hoa, Ninh Thuan and Binh Thuan province. In Can Tho province (MRD) Proconco, a leading animal feed producer has put into operation a fish feed mill with annual capacity of 50,000 mt of which 90% is for fish and the remainder for shrimp.

POLICY

Value Added Tax (VAT) exemption for imported dairy cows

According to Official Letter No.10285/TC/TCT dated September 20, 2002 imports of breeding cows under development projects approved by the Government will be exempted from Value Added Tax (VAT). The new regulation is applied to all dairy cow shipments entering Vietnam since January 1, 2002. Currently, Vietnam charges 5% VAT on imports of breeding live animals.

Vietnam's animal sector challenged by AFTA (Asean Free Trade Area)'s tariff cut scheme

Vietnam's animal sector may face a large challenge from neighboring Association of Southeast Asian Countries (ASEAN) countries as Vietnam is committed to reducing most import tariffs to 0-5% by 2005. According to the Ministry of Finance, Vietnam had agreed to reduce import tax to 0-5% of more than 95% of all goods items by 2005, a year earlier than scheduled under their ASEAN commitments.

In 2003, Vietnam will add more than 2,250 tariff lines from heavily protected industries (including cement, paper, electronic, engineering products and construction materials) to their AFTA's tariff rate cut schedule. Those tariff cuts will be effective from July 1, 2003 rather than (the previously scheduled date of) January 2003. The delay is due to Vietnam's needs for more time to build a legal framework and mechanisms to simultaneously integrate it's existing tariffs (about 6,500 tariff lines) and into the Common Effective Preferential Tariff list (10,800 lines) under the ASEAN's Free Trade Area Agreement.

Vietnam is also working on a list of 350 sensitive ag commodities for which import tariff rates will be eliminated by 2004-2008 in an accordance with ASEAN- China Free Trade Agreement.